Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Message Text

CONFIDENTIAL

PAGE 01 NEW DE 03963 01 OF 02 061012 Z

12
ACTION NEA-12

INFO OCT-01 EUR-25 ADP-00 EB-11 COME-00 SCEM-02 INT-08

TRSE-00 OMB-01 CIAE-00 DODE-00 PM-09 H-02 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

OPIC-12 RSR-01 /139 W
---------- 127165
R 060900 Z APR 73
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 3607
INFO AMEMBASSY DACCA
AMEMBASSY THE HAGUE
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY TEHRAN
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

C O N F I D E N T I A L SECTION 1 OF 2 NEW DELHI 3963

E. O. 11652: GDS
TAGS: ENRG IN
SUBJECT: OIL INDUSTRY DEVELOPMENTS - ESSO OUTLOOK FAVORABLE AT LAST?

REF: A) NEW DELHI 12508, OCTOBER 13, 1972 (NOTAL)
B) BOMBAY 0585, MARCH 20, 1971 (NOTAL)

BEGIN SUMMARY: OUTCOME OF APRIL 3 MEETING BETWEEN MINERALS ATTACHE AND ESSO DELHI REPRESENTATIVE PROVED EXCEPTIONALLY REVEALING. HIGHLIGHTS ARE: ESSO/ GOVERNMENT OF INDIA EQUITY-SHARING NEGOTIATIONS MAY BE PROLONGED THE GOVERNMENT IS BECOMING INCREASINGLY CONCERNED OVER GROWING COUNTYWIDE PETROLEUM PRODUCT SHORTAGES: RATIONING EXISTS; GOI HAS ACCEPTED NEW (APIL 1) PRICES IMPORTED CRUDE AND HAS REMOVED RESTRICTIONS ON CRUDE OIL IMPORTS; ESSO (AND OTHER PRIVATE FIRMS) HAVE AGREED TO REFINE GOI- PURCHASED IRAQI CRUDE " FOR A FEE"; ESSO ESTIMATES
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Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

THAT 1973 WILL BE " VERY PROFITABLE" YEAR; AND ESSO VIEWS LONG- RANGE OPERATING OUTLOOK AS FAVORABLE. END SUMMARY.

1. MINERALS ATTACHE MET ESSO INDIA DELHI REPRESENTATIVE INDER MALHOTRA APRIL 3 TO DISCUSS (1) STATUS ESSO/ GOVERNMENT OF INDIA NEGOTIATIONS ON EQUITY- SHARING (REFS. A AND B), (2) ESSO' S OPERATING POSITION AND OUTLOOK GIVEN ACCELERATED ATTACKS ON PRIVATE OIL COMPANIES IN PARLIAMENT AND PRESS, AND (3) ESSO' S VIEW OF GOI' S REACTION TO LATEST (APRIL 1) IMPORTED CRUDE OIL PRICE RISE.

2. MALHOTRA EXHIBITED PRAGMATIC OPTIMUM LONG UNSEEN IN INDIA' S PETROLEUM CIRCLES. HE CONCLUDES THAT ESSO (AND BURMAH-SHELL AND CALTEX) ARE " ON THRESHOLD OF NEW ERA IN INDIA". HE DOES NOT FORESEE PERIOF OF TROUBLE- FREE ENCHANTMENT, BUT ONE OF RELUCTANT ACCEPTANCE BY THE GOI THAT A FOREIGN OIL COMPANY PRESENCE IN INDIA MUST BE TOLERATED IN SOME FORM FOR THE NEXT DECADE. THIS MUST BE VIEWED WITH CAUTION IN LIGHT OF KNOWN GOI OIL POLICY, BUT WE CONCUR THAT THE GOVERNMENT CAN ILL- AFFORD TO APPLY " SELECTIVE NATIONALIZATION" IN PETROLEUM IF IT WOULD MEAN LOSS OF GUARANTEED CRUDE OIL SUPPLIES.

3. MALHOTRA STATED AT OUTSET THAT NEGOTIATIONS WITH GOI ON ESSO' S EQUITY- SHARING PROPOSAL ARE CONTINUING " IN ATMOSPHERE OF CORDIALITY", BUT THAT FINAL AGREEMENT NOT YET IN SIGHT. HE SAID PETROLEUM MINISTRY COMMITTEE IS CURRENTLY STUDYING DATE PROVIDED BY ESSO SHOWING COMPANY' S COMBINED EARNING POWER AND WRITTEN DOWN TAX VALUE DURING LAST THREE- YEAR PERIOD (REF. B). THESE FIGURES INTENDED TO SET TOTAL VALUE OF ESSO HOLDINGS. GOI IS EXPECTED TO REPLY WITH ITS VERSION OF VALUE WITHIN NEXT FEW DAYS. REPORTEDLY, GOI CONTINUES TO FAVOR 74-26 PERCENT AGREEMENT, WITH OPTION TO BUY OUT ESSO' S 26 PERCENT OVER 5- YEAR PERIOD. IN GOVERNMENT' S VIWW, THIS PLAN WOULD AVOID NATIONALIZATION STIGMA, BUT COULD BE DESCRIBED TO PARLIAMENT AND PUBLIC AS TAKEOVER OF ESSO. CONCURRENTLY, AGREEMENT WOULD PRESERVE CRUDE OIL SUPPLIES DURING CRITICAL PERIOD AHEAD; PRESUMABLY GIVE THE GOVERNMENT SUFFICIENT TIME TO SECURE ADDITIONAL OUTSIDE SOURCES OF CRUDE SUPPLY (IRAQ OR OTHERS); AND ALLOW ADEQUATE TIME TO NEGOTIATE NEW CRUDE SUPPLY CONTRACTS WITH ESSO OR OTHER WESTERN- COMAPNY SOURCES IF REQUIRED LATER.

4. MALHOTRA AGREED THAT THE GOVERNMENTREMAINS FULLY COMMITTED
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Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

TO ITS STATED POLICY " TO REDUCE THE COUNTRY' S DEPENDENCE ON THE FOREIGN OIL CARTELS". THIS EFFORT, HE SAID, GOES ONWARD; AS DO THE ALMOST- DAILY ATTACKS ON THE PRIVATE COMPANIES IN PARLIAMENT AND BY THE PRESS. THE GOVERNMENT CONTINUES TO FIND THE RHETORIC OF ANTI- CAPTIALTIST, PRO- NATIONALIZATION, FACTIONS IN INDIA TO BE A USEFUL DIVERSION AGAINST EXPOSURE OF REAL PROBLEMS FACING THE COUNTRY. THE GOVERNMENT, ACCORDING TO MALHOTRA, IS FAR MORE FEARFUL OF POSSIBLE CRITICISM OVER GROWING PETROLEUM PRODUCT SHORTAGE IN INDIA THAN IT IS TO FURTHER DELAYS TO A TAKEOVER OF THE PRIVATE PETROLEUM SECTOR.

5. MALHOTRA SAID THAT THE PETROLEUM MINISTRY IS " AT LAST" DEEPLY CONCERNED OVER WIDENING GAP BETWEEN AVAILABLE PETROLEUM PRODUCT SUPPLIES AND CONSUMER DEMANDS, AND HAS URGENTLY REQUESTED ACTIVE, BUT LOW KEY, SUPPORT FROM OTHER AGENCIES OF THE GOI IN ITS ATTEMPT TO AVERT POSSIBLE EMERGENCY. REPORTEDLY, THE GOI IS RESISTING IMPLEMENTATION OF A FORMAL PRODUCT RATIONING PROGRAM IN INDIA, BUT IS FULLY AWARE THAT ALL MARKETING ORGANIDSTIONS (GOVERNMENT- OWNED INDIAN OIL CORPORATION AND PRIVATE COMPANIES) HAVE, THROUGH NECESSITY, IMPOSED RATIONING " ON THEIR OWN". HE CLAIMS THAT WITH CONSUMER DEMANDS INCREASING AT 9 PERCENT ANNUALLY, PETROLEUM PRODUCT ADVERTISING AND MARKETING IN INDIA HAS CEASED TO EXIST. HE SAID " EVERYONE CAN SELL EVERYTHING" AND THAT, BARRING SEVERE COUNTRYWIDE ECONOMIC REVERSALS, A SUPPLIERS MARKET MAY BE EXPECTED
TO CONTINUE " WELL INTO THE 1980' S".
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PAGE 01 NEW DE 03963 02 OF 02 061402 Z

43
ACTION NEA-12

INFO OCT-01 EUR-25 ADP-00 EB-11 COME-00 SCEM-02 INT-08

TRSE-00 OPIC-12 OMB-01 CIAE-00 DODE-00 PM-09 H-02

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15

USIA-12 RSR-01 (ADP) W

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FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 3608

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

INFO AMEMBASSY DACCA
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C O N F I D E N T I A L SECTION 2 OF 2 NEW DELHI 3963

6. FURTHER EVIDENCE OF GOI CONCERN OVER GROWING PRODUCT SHORTAGES IN COUNTRY IS REFLECTED BY THE GOVERNMENT' S RECENT REMOVAL OF RESTRICTIONS ON CRUDE OIL IMPORTS BY PRIVATE REFINERIES. HELD TO LICENSED LEVELS SINCE 1971 INDO/ PAK WAR, ALL PRIVATE REFINERIES ARE NOW PERMITTED TO IMPORT TO FULL UTILIZATION OF AVAILABLE REFINING CAPACITIES. MALHORTRA SAID ESSO CURRENTLY OPERATING AT MAXIMUM CAPACITY OF NEARLY 75,000 BARRELS THROUGHOUT DAILY (LICENSED LEVEL: 54,000 BARRELS DAILY), AND THAT GOI IS ALLOCATING FOREIGN EXCHANGE FOR ALL CRUDE PURCHASES AT RECENTLY INCREASED (APRIL 1) PRICE LEVEL OF $2.09 PER BARREL, F. O. B. OIL- PORT, SAUDI ARABIA. (UNCONFIRMED, BUT RELIABLE, REPORTS STATE THAT BURMAH- SHELL AND CALTEX ARE ALSO RECEIVING FOREIGN EXCHANGE FOR IMPORTS UP TO MAXIMUM INSTALLED CAPACITIES, AT NEWLY- SET PRICE OF $2.25 PER BARREL FOR PERSIAN GULF CRUDE.)

7. APART FROM ABOVE, GOI RECENTLY ENCOUNTERED EMBARRASSING
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PAGE 02 NEW DE 03963 02 OF 02 061402 Z

EMERGENCY INVOLVING CRUDE OIL DELIVERIES FROM IRAQ, AND HAS HAD TO CALL UPON PRIVATE REFINING COMPANIES FOR ASSISTANCE. ON- GOING INDO/ IRAQI TRADE AGREEMENT WILL PROVIDE INDIA WITH ABOUT 14.5 MILLION BARRELS RUMAILA CRUDE DURING NEXT 18 MONTHS. RUMAILA CRUDE WAS TO HAVE BEEN OFFLOADED FROM INDIAN TANKERS AT EASTERN INDIA' S HALDIA PORT NEAR CALCUTTA. THE CRUDE WOULD THEN HAVE BEEN PIPELINED OVERLAND 300 MILES TO THE GOI- OWNED BARAUNI, BIHAR, REFINERY TO AUGMENT THAT UNI T' S LAGGING SUPPLY OF DOMESTIC, ASSAM, CRUDE OIL. ARRIVING TANKERS WERE UNABLE UNLOAD SUPPLIES AT THE UNFINISHED, SHALLOW- DRAFT, HALDIA PORT AND " IDLE" CAPACITIES OF PRIVATE SECTOR REFINING COMPANIES REMAINED AS ONLY PROCESSING ALTERNATIVE TO GOI AT THIS TIME. BURMAH- SHELL, CALTEX AND ESSO AGREED PROCESS IRAQI CRUDE " FOR A FEE" , AND DELIVERIES ARE REPORTEDLY
UNDERWAY ALL THREE REFINERIES. ACCORDING MALHOTRA, ESSO RECEIVED 120,000 BARRELS RUMAILA CRUDE DURING LAST WEEK OF MARCH, AND WILL ACCEPT ADDITIONAL QUANTITIES AS AND WHEN REQUESTED BY GOI.

8. COMMENT: MALHOTRA' S " NEW ERA" MAY OR MAY NOT DEVELOP

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

INTO REALITY, BUT FOR THE MOMENT AT LEAST EACH OF THE PRIVATE SECTOR REFINING COMPANIES APPEAR TO BE FUNCTIONING IN AN ODDLY ACCEPTABLE BUSINESS ATMOSPHERE OF A TYPE NEVER BEFORE ENCOUNTERED
IN INDIA; PROPAGANDA FOR PUBLIC CONSUMPTION NOTWITHSTANDING. THE CLIMATE IS NOT EUPHORIC; INDEED, IT ISN' T CALM. THE PRIVATE COMPANIES HAVE BEEN GIVEN A GREEN LIGHT TO PRODUCE TO THEIR MAXIMUM CAPACITIES, AND GOI- RELEASED FOREIGN EXCHANGE FOR CRUDE OIL IMPORTS IS BEING MADE AVAILABLE TO THE COMPANIES ON REQUEST WITHOUT DELAY. HOWEVER, THE GOVERNMENT IS CLEARLY STRUGGLING TO REGAIN THE POSITION OF STRENGTH IN PETROLEUM MATTERS IF FELT IT ENJOYED (SAY) TWO YEARS AGO. THERE IS NO EVIDENCE TO SUGGEST A NEWLY- EMERGING GOI DESIRE TO PROLONG THE PRIVATE COM-PANIES' STAY IN INDIA, OR TO ALTER THE GOVERNMENT' S OIL POLICY; BUT THE PRIVATE COMPANIES ARE STILL NEEDED IN INDIA. IF NEED PREVAILS OVER POLITICAL CONSIDERATIONS, A NEW TYPE OF STATUS QUO MAY BE REALIEZED; POSSIBLY THROUGHOUT MOST OF THE REMAINING PERIOD OF EACH COMPANY' S EXISTING REFINERY AGREEMENT (1979-81).

9. THE PRIVATE COMPANIES OPERATING IN INDIA DID NOT CREATE, OR IN ANY WAY CONTRIBUTE TO, THE GOVERNMENT OF INDIA' S CURRENT DILEMMA IN PETROLEUM. THE SITUATION EVOLVED IN PART BY THE GOVERNMENT' S PREOCCUPATION OVER PLANNING FOR PUBLIC SECTOR DOMINATION IN PETROLEUM (BUT WITH NO SUBSTANTIVE ACTION TO BACK UP PLANNING), IN PART BY A LACK OF RESERVES OF CRUDE OIL, AND
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FINALLY BY THE HARDENING OF CRUDE OIL PRICES AND SUPPLIES ON THE WORLD MARKET. THE RESULT IS THAT EACH PRIVATE COMPANY NOW APPEARS TO BE OPERATING FROM THE POSITION OF STRENGTH RECENTLY OCCUPIED BY THE GOI. IN ESSO' S CASE, ITS BARGAINING POSITION IN EQUITY SHARE NEGOTIATIONS WITH THE GOI SEEMS TO HAVE IMPROVED SIGNIFICANTLY IN PAST FEW WEEKS. YET, LATEST DEVELOPMENTS MAY HAVE EFFECT ON ESSO' S STATED DESIRE TO PRESS FOR EARLY CONCLUSION TO PROPOSAL. ACCORDING MALHOTRA, ESSO NOW ESTIMATES THAT THE COMPANY WILL HAVE " VERY PROFITABLE" YEAR DURING 1973 WITH GOOD INCOME FROM MAXIMUM CRUDE RUNS, FAVORABLE REFINING FEES FOR IRAQI CRUDE, AND A RECENTLY- IMPLEMENTED GOI/ ESSO AGREEMENT TO PROVIDE PETROLEUM PRODUCTS TO BANGLADESH. END COMMENT.
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Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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*** Current Handling Restrictions *** n/a
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Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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Decaption Note:
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Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
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Disposition Reason:
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EO Systematic Review
30 JUN 2005

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TAGS: ENRG, IN
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Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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